



Investment Office

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AGENDA ITEM 3a

TO: MEMBERS OF THE INVESTMENT POLICY SUBCOMMITTEE

- I. SUBJECT:** Revision of Domestic Enhanced Index – Internally Managed
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Approve the reading and recommend to the Investment Committee approval of the Statement of Investment Policy for Global Enhanced Index Strategies – Internally Managed. Wilshire's opinion letter is included as Attachment 1.

IV. ANALYSIS:

At the December 12, 2005 meeting, the CalPERS Investment Committee approved the launch of a fundamentally-weighted, portfolio based on the academic work of Dr. Rob Arnott and his colleagues at Research Affiliates LLC (RALLC). In order to ensure that all in-house, active portfolios are managed in a consistent manner, Staff has amended the current policy into a global policy intended to cover strategies based on both the existing portfolio's model as well as the fundamentally-weighted model.

CalPERS staff views the Fundamental Weighting methodology as a global strategy. This strategy shall be implemented using discrete domestic and international segments as a result of differing benchmarks and separate equity class allocations. Staff views the approval of the Investment Committee as direction to fund the domestic portion of strategy, and plans to return to the Investment Committee when appropriate to seek funding for the international portion.

V. STRATEGIC PLAN:

This item is consistent with the Strategic Plan: Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions and Goal IX, achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

The only explicit cost associated with the strategy is the annual subscription cost to be paid by CalPERS for the model data on a daily basis. The maximum level of this expense shall be 10 basis points (1/10 of 1%) of the asset level being managed within the strategy. All other resource needs can be met with existing personnel, technology, and infrastructure.

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